

Hand Delivered

April 11, 2003

Mary L. Cottrell, Secretary
Dept. of Telecommunications and Energy
1 South Station
Boston, Massachusetts 02110

Re: KeySpan Energy Delivery New England¹
Market Transformation/Energy Efficiency Programs D.T.E. 02-31

Dear Ms. Cottrell:

Enclosed is KeySpan Energy Delivery New England's ("KeySpan") Demand Side Management and Market Transformation Plan 2002-2007 Report on Program Details to the Department of Telecommunications and Energy dated April 11, 2003 (the "Report"). This filing is made in accordance with the Joint Offer of Settlement regarding KeySpan's Demand Side Management/ Market Transformation Program for the years 2002-2007 as approved by the Department on June 6, 2002 (the "Settlement").²

The Report presents KeySpan's energy efficiency program plans for the period May 1, 2003 through April 30, 2004 ("Program Year 2").³

With regards to the Company's exhibit of sample incentive calculations, please note that the calculations are shown in accordance with the Department's Guidelines approved in Evaluation and Approval of Energy Efficiency Programs, D.T.E. 98-100 (2000). As discussed in section IX of the Report, the incentive mechanism approved by the

¹ For purposes of this filing, KeySpan Energy Delivery New England or "KeySpan" refers collectively to Boston Gas Company, Colonial Gas Company and Essex Gas Company each of which does business under the name KeySpan Energy Delivery New England.

² The Non-Utility parties are: The Massachusetts Division of Energy Resources, The Northeast Energy Efficiency Council, The Massachusetts Energy Director's Association and the Massachusetts Community Action Association. The Office of the Attorney General, though not a signatory to the Settlement, is regularly informed of all meeting and discussions between KeySpan and the Non-Utility Parties.

³Section II (B) of the Settlement defines Program Year as the period commencing on May 1 and ending on the following April 30.

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Department is based on the average yield of the 3-month Treasury Bill. That rate is currently at 1.14% as compared to the 4-6% range contemplated during the D.T.E. 98-100 proceeding. As such, the 3-month Treasury Bill rate is no longer sufficient to properly promote good program management. As recently recognized by the Department in Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 00-65-A, a properly designed incentive must be large enough to promote good program management, but small enough to leave almost all of the money to directly serve customers. In that case, the Department approved the utility company's motion to deviate from the Guidelines and allowed an incentive calculation that substitutes a rate of 4.25% for the 3-month Treasury Bill rate. Id., at p. 4.⁴ Accordingly, KeySpan has begun discussions with the Non-Utility Parties and intends to seek permission to deviate from the Department's Guidelines with respect to incentive levels for Program Years 1 and 2. This permission will be sought as part of the August 2003 incentive calculation filing that is required by the Settlement.

The Company is available to answer any questions that may arise during the Department's review of this filing. Please let me know if you require anything further.

Very truly yours,

Thomas P. O'Neill

TPO/ca
Enclosures

cc: George Yiankos, Director of Gas Division
Jody Stiefel, Hearing Officer
Judith Laster, Office of the Attorney General
Paul W. Gromer, Northeast Energy Efficiency Council
Steven Venezia, Division of Energy Resources
Jerrold Oppenheim, Massachusetts Energy Director's Association and
Massachusetts Community Action Association

⁴ DOER supported the Motion.